

STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

TELECOMMUNICATIONS

IN THE MATTER OF VERIZON NEW JERSEY, INC.)
FOR A REVISION OF TARIFF B.P.U.-N.J.-NO.2)
PROVIDING FOR A REVENUE NEUTRAL RATE)
RESTRUCTURE INCLUDING A RESTRUCTURE OF)
RESIDENCE AND BUSINESS BASIC EXCHANGE)
SERVICE AND ELIMINATION OF \$.65 MONTHLY CREDIT)

ORDER

DOCKET NO. TT04060442

(SERVICE LIST ATTACHED)

BY THE BOARD:¹

On June 15, 2004, Verizon New Jersey (VNJ) submitted a petition to the Board requesting revisions to its tariff to provide for the following:

- 1) Reclassification of certain VNJ exchange areas pursuant to its tariff to ensure that classifications of its exchange areas are consistent with tariff designations of rate group definitions.
- 2) A Revenue Neutral Restructure to eliminate the four-tiered rate group structure and establishment of single statewide average rates for residence and business basic exchange service, which include Touch Tone Service.
- 3) Elimination of the \$.65 monthly credit applied to all residence basic exchange (except Lifeline) and single-line business customers.

Since opening its local network to competition, VNJ claims it has lost more than 1.4 million access lines to Competitive Local Exchange Carriers (CLECs), technology substitution and the economy between July 1, 2002 and April 30, 2004. According to VNJ, New Jersey consumers have a wide array of choices for their local provider, including wire line carriers using their own facilities and those that lease from VNJ, cable providers using their own networks, wireless providers and new startups that provide basic telephone service over

¹ Commissioner Jack Alter did not participate in the deliberation of or on the vote in this matter.

broadband Internet access. These competing services and technologies make the New Jersey market the most competitive and least expensive in the country, according to VNJ.

VNJ'S PETITION

Exchange Area Reclassification

VNJ wants to reclassify exchange areas so they are consistent with tariff designations of rate group definitions. According to its tariff, an exchange area moves from one rate group to another when two consecutive annual reviews show the exchange area to have at least 1% more or fewer customers than the limits of the group. According to VNJ, its tariff allows for reclassification without Board approval when the rate group classification is filed with the Board, and customers are advised 30 days prior to the effective date of change.

Exchange areas exist for the purpose of establishing local service charges and are based on the number of customer lines in each local service area, which is broken down into four rate groups. According to the petition, the results of a 2002-03 review indicate that 115 exchange areas could be reclassified with an estimated \$9.1 million annual revenue increase. VNJ stated that it would delay the reclassification so that it will coincide with the proposed revenue neutral rate restructuring described below, which will allow customers to make the transition without having to change rate groups. Customers with optional packages that include basic service are unaffected.

Revenue Neutral Rate Restructure

According to the petition, the four-tiered rate group structure was established in the early part of the twentieth century so that customers could be served in a local calling area. VNJ proposes to establish single statewide rates. According to VNJ, statewide rates would eliminate the need for future exchange area reclassifications. VNJ requests elimination of Touch Tone as a separate service and wants to include that service in its basic exchange service, which also is a protected telephone service.²

VNJ also requests the elimination of party-line service, which affects approximately 2500 customers who no longer share their lines with other parties. VNJ asserts that these customers are receiving rates that are lower than other customers.

In addition, the petition proposes to eliminate P.B.X. Flat Rate service since there are no customers with this service.

This proposed restructure would result in statewide residential rates for flat rate service of \$8.95. For VNJ's usage sensitive offerings, which are moderate use and low use, the rates would be \$7.40 and \$5.40 respectively. The business exchange rate would be \$15.00. All rates would include Touch Tone.

² Protected telephone service are any of the following telecommunications services provided by a local exchange telecommunications company, unless the Board determines, after notice and hearing, that any of these services is competitive or should no longer be a protected telephone service: telecommunications services provided to business or residential customers for the purpose of completing local calls; touch-tone service or similar service; access services other than those services that the Board has previously found to be competitive; toll service provided by a local exchange telecommunications company; and the ordering, installation and restoration these services. N.J.S.A. 48:2-21.17. Toll service was deemed competitive in 1997.

VNJ's submits in its petition that the proposed revisions affecting its Customer Provided Pay Telephone Service lines comply with various pay telephone orders issued by the FCC. According to VNJ, many customer provided pay telephone lines use basic business exchange service rates. VNJ claims that the basic business exchange service rate set forth in the proposal will continue to satisfy the "new services test" for state tariffs set forth in FCC regulations at 47 C.F.R. §61.49(g)(2) and (h). The proposed statewide rate includes Touch Tone service. VNJ requests the Board find the proposed new statewide rate passes the new services test.

Elimination of \$.65 Monthly Credit

VNJ requests that the Board eliminate the \$.65 monthly credit applied to all residence basic exchange and single-line business customers (except Lifeline). This credit was approved by the Board in 1987 as a result of several offsets to VNJ earnings from a decrease in the federal corporate tax rate. The federal corporate tax rate was increased in 1993 and this credit is the only offset still remaining. Elimination of this credit will result in an estimated revenue increase of \$24.2 million based on April 2004 data.

Implementation of Changes

VNJ proposes to implement exchange area reclassification, establish statewide rates and eliminate the monthly credit simultaneously. The proposed rate increases resulting from the reclassification, restructure and elimination of the \$.65 credit would result in increases for residence customers; the monthly increases are in a range from \$.41 or 2.8% to \$1.85 or 13.8%. For business customers, the monthly increases range from \$.68 or 3.3% to \$2.99 or 16.3%.

VNJ indicates that it will publish notice to customers and file all copies accordingly where appropriate.

DISCUSSION

VNJ's argument that it may reclassify certain exchange areas and increase rates without Board approval by relying upon a 20 year old tariff is not convincing. The tariff cited by VNJ predates the 1980's and since then VNJ has never proposed increasing rates in rate groups outside a formalized rate proceeding. These proceedings included the submission of testimony, hearings and briefs. VNJ's petition contains a statement that this matter is filed "pursuant to a Board approved tariff" and its intention to reclassify exchange areas appears to be premised upon its contention that the company can proceed with reclassification, which includes rate increases to customers, without Board approval. As discussed below, the Board disagrees. VNJ's petition concludes by agreeing to defer the rate changes resulting from the Exchange Area Reclassification until the Board approves its request for the revenue neutral restructure that establishes a single statewide rate and sets forth an effective date of September 18, 2004. The Board HEREBY ORDERS that no rate changes shall be instituted until the conclusion of the proceeding set forth herein.

The Board FINDS that all of the changes set forth in VNJ's petition should be the subject of hearings before the Board to test the reasonableness of reclassifying rate groups, the offering of the subsequent statewide rate in place of rate groups and the reasonableness of eliminating the \$.65 credit. These changes encompass substantial changes to rates and the structure of local calling service for both business and residential subscribers. They also

represent a significant increase in company revenues of approximately \$33 million at the time of the filing.

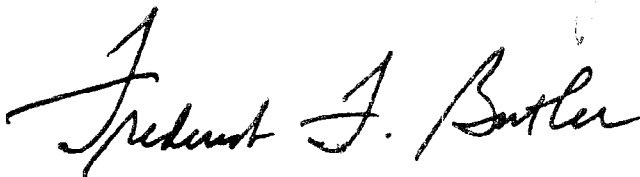
In addition, the Board FINDS that evidentiary hearings are necessary to comply with both VNJ's current Plan for Alternative Regulation ("PAR-2") and the statutory requirement that the Board must "ensure the affordability of protected services." N.J.S.A. 48:2-21.18. Basic exchange service is a protected service. Any changes to such services must be reviewed to ensure the services remain affordable. Thus, evidentiary hearings are necessary to test not only whether basic rates are just and reasonable but also whether they continue to be affordable.

Therefore, in order to process this matter consistent with current statutes and the PAR-2, the Board ADOPTS the attached procedural schedule for disposition of this matter. Commissioner Frederick F. Butler shall be the presiding Commissioner in this matter and has the authority to, among other things, resolve discovery disputes, grant requests for intervention and modify the schedule as necessary. Finally, VNJ's proposed public notice shall be reviewed and approved by Board Staff prior to publication by VNJ.

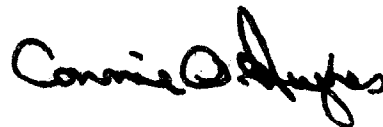
DATED: 12/2/04

BOARD OF PUBLIC UTILITIES
BY:


JEANNE M. FOX
PRESIDENT



FREDERICK F. BUTLER
COMMISSIONER



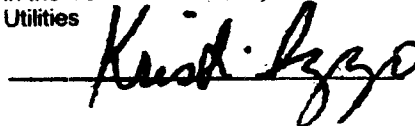
CONNIE O. HUGHES
COMMISSIONER

ATTEST:



KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within
document is a true copy of the original
in the files of the Board of Public
Utilities



Procedural Schedule

Verizon Case

Board Agenda to Initiate Proceedings	December 1, 2004
Motions for Intervention by Interested Parties	December 15, 2004
Initial Testimony to be Filed	December 22, 2004
Initial Discovery Requests Due	January 4, 2005
Public Hearing	January 5, 2005
Initial Discovery Responses Due	January 11, 2005
Rebuttal Testimony to be Filed	January 18, 2005
Rebuttal Testimony Discovery Requests Due	January 25, 2005
Rebuttal Testimony Discovery Responses Due	February 1, 2005
Evidentiary Hearings	February 7-9, 2005
Initial Briefs Due	February 24, 2005
Reply Briefs Due	March 10, 2005
Board Decision	March 31, 2005

SERVICE LIST

Docket No. TT04060442

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